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RAILWAY RIVALRIES IN MANCHURIA BETWEEN CHINA AND JAPAN

by

T. A. BISSON

with the aid of the Research Staff of the Foreign Policy Association

1 1 1

INTRODUCTION

THE problems arising from Sino-Japanese railway competition in Manchuria, which have become steadily more urgent within recent years, constitute the most difficult aspect of the situation confronting the League Commission of Inquiry now in the Far East. In the decade preceding 1905, an essentially Russo-Japanese conflict had led to the establishment of the Japanese-owned South Manchuria Railway and the Russian-owned Chinese Eastern Railway.¹ Thereafter, until 1927, Manchurian railway diplomacy can be summed up as an effort by Japan, assisted by Tsarist Russia until 1917, to secure priority—to the exclusion of other foreign capital—in financing the construction of new Manchurian railways. In this struggle, which involved four major diplomatic controversies, Japan and Russia were uniformly successful. The years 1907 to 1909 witnessed the obstruction by Russia and Japan of the Hsinmintun-Fakumen and Chinchow-Aigun railway projects, and of the Knox Neutralization Plan, which were primarily designed to facilitate railway construction in Manchuria by the introduction of Western capital.² Similarly, in the negotiations attending

the formation of the China consortiums in the periods 1911-1912 and 1918-1920, Japan strongly objected to throwing Manchuria open to international loans.³ Japan's opposition to such projects was motivated by what it regarded as the paramount necessity of protecting its vital political, economic, and strategic interests in Manchuria.⁴

Japanese, rather than Western, capital was chiefly responsible for the additional Manchurian railways actually constructed up to 1927. Although these new railways were financed almost exclusively by Japan, they remained legally Chinese government lines under Chinese management, and will be Chinese-owned upon repayment of the Japanese loans which, however, are largely in default. After 1927 a new factor appeared—independent construction by the Chinese authorities at Mukden of Chinese-controlled lines financed by Chinese capital. These developments, by creating the possibility of an eventual unified group of Manchurian railways under Chinese management, which might have strangled the South

1. Cf. T. A. Bisson, "Basic Treaty Issues in Manchuria between Japan and China," *Foreign Policy Reports*, Vol. VII, No. 21, December 23, 1931; also Vera A. Micheles, "Russia and China in Manchuria," *Foreign Policy Association Information Service*, Vol. V, No. 11, August 7, 1929.

2. On November 8, 1907, the British firm of Pauling and Company secured an agreement from the Chinese government calling for the construction of a railway from Hsinmintun (then the Manchurian terminus of the railway to Peking) to Fakumen, about 50 miles northwest of Mukden. A supplementary agreement provided for the building of a northward extension to Tsitsihar. After two years of diplomatic controversy, Japan successfully protested the execution of this project on the basis of alleged rights conferred in 1905 by the treaties of Portsmouth and Peking. (Cf. C. Walter Young, *Japan's Special Position in Manchuria*, Baltimore, Johns Hopkins Press, 1931, p. 106-124.)

On October 2, 1909, an Anglo-American business group signed a loan contract with the Chinese authorities in Manchuria providing for the construction of a railway from Chinchow via Tsitsihar to Aigun, in the far north of Manchuria. On November 6, 1909, the American Secretary of State, Philander C. Knox, in a memorandum to the British Foreign Office, suggested Anglo-American diplomatic cooperation in supporting the Chinchow-Aigun railway project, in addition to a plan for the neutralization of all Manchurian railways, including the South Manchuria and the Chinese Eastern. The latter plan called for a foreign loan to enable China to purchase the entire Manchurian railway system, which was to be administered by nationals of the participating powers, including Japan and Russia, for the term of the loan. Both schemes fell through, owing to Russo-Japanese opposition. (*Ibid.*, p. 125-168.)

3. The original Four-Power Consortium agreement, signed by the United States, England, France, and Germany on April 15, 1911, included an arrangement for a Manchurian "industrial development" loan. In June 1912, upon the admission of Japan and Russia, the Six-Power Consortium was formed. In the course of the intervening negotiations, however, it had been made clear that the proposed Manchurian loan would not be used for purposes of railway construction. It had also been stipulated that Russia and Japan might withdraw if a proposed loan were deemed contrary to their interests. Following the withdrawal of the United States, the remaining five-power group advanced the Reorganization Loan to Yuan Shih-kai in 1913, but the proceeds of this loan were not expended in Manchuria. (*Ibid.*, p. 169-183; also Frederick V. Field, *American Participation in the China Consortiums*, Chicago, University of Chicago Press, 1931, p. 101-109.)

The negotiations attending the formation of the International Banking Consortium (including the United States, England, France and Japan), successfully concluded on October 15, 1920, were prolonged for two years by Japanese objections. Japan first attempted to have South Manchuria and Eastern Inner Mongolia entirely excluded from the scope of the consortium operations, but finally contented itself with the promise of a prior option on certain specific railway projects and with the general assurance that no projects calculated to jeopardize the security of Japan's "economic life and national defense" would be countenanced. Owing chiefly to the opposition of the Chinese government, no loans were ever advanced to China by this consortium. (Young, *Japan's Special Position in Manchuria*, cited, p. 261-288; *idem*, *The International Relations of Manchuria*, Chicago, University of Chicago Press, 1929, p. 160-169; also Field, *American Participation in the China Consortiums*, cited, p. 142-198.)

4. Cf. Bisson, "Basic Treaty Issues in Manchuria between Japan and China," cited, p. 381-382.

Manchuria Railway economically, raised an altogether new issue of paramount importance. Intensified competition between the Chinese and Japanese lines in a period of economic depression, by causing a radical re-

duction in the profits of the South Manchuria Railway Company, contributed directly to the drastic action taken by Japan in September 1931 to defend its position in Manchuria.

THE JAPANESE "FEEDER" RAILWAYS

In June 1930, of the 3,700 miles of railroads operating in Manchuria, Japan owned nearly 700 miles, Russia (in joint management with China) 1,069 miles, and China over 1,800 miles.⁵ The Chinese-owned railways fall into three distinct categories. Of these, the first is the Mukden-Shanhaikuan section of the Peking-Mukden Railway, one of the oldest railroads in China, built partly with British capital.⁶ The construction of the Mukden-Shanhaikuan line, which with its branches comprises 388 miles, took place between 1897 and 1907. The second category includes 612 miles built with Japanese capital in the period 1909-1928. Finally, between 1926 and 1931, over 800 miles were built with Chinese capital. The immediate causes of the present conflict in Manchuria are rooted in the controversies centering upon these latter two categories of Chinese railways. This section deals with the Chinese railways financed by Japan—the Japanese "feeder" lines; the following section discusses the Chinese railways constructed with Chinese capital.

In the years from 1909 to 1928 two main railway lines, aggregating 612 miles — the Changchun-Tunhua line, extending eastward from Changchun toward the Korean border, and the Ssupingkai-Angangchi line, running from north of Mukden toward Tsitsihar — were constructed through Sino-Japanese co-operation. Each of these lines, however, was constructed in sections governed by separate contracts, resulting in an entirely different status in the case of each section. The first of these lines—the Changchun-Tunhua railway—comprises the sections from Changchun to Kirin, and from Kirin to Tunhua. The uncompleted extension of this line from Tunhua to Huining (Kainei) on the Korean

border is subject to controversy, with Japan claiming an exclusive right to finance its construction, a right which is not admitted by the Chinese. The second of these lines—the Ssupingkai-Angangchi railway — comprises the sections from Ssupingkai to Chengchiatun, from Chengchiatun to Taonan, and from Taonan to Angangchi. A branch of this line also runs from Chengchiatun to Tungliao (Paiyintalai).⁷

If these lines are closely examined on a map, it is evident that they were designed to tap newly developing sections of Manchuria and to feed the products of these regions into the old-established South Manchuria Railway system. For this reason Japanese capital and technical skill were forthcoming in liberal measure to aid in their construction. The Chinese authorities, however, reserved the rights of ownership and management, assuming the task of repaying the Japanese loans fixed on the roads. The situation thus created has in practice merely intensified Sino-Japanese antagonism. Japan, on the one hand, was bent on maintaining these lines as feeders to its own system, if not actually trying to unite them with the South Manchuria Railway. China, on the other hand, even while defaulting on the loan payments, sought to bring certain of these lines within the scope of an independent Chinese railway system in Manchuria. These difficulties added an important element to the embitterment of Sino-Japanese relations during 1930 and 1931.

THE CHANGCHUN-TUNHUA LINES

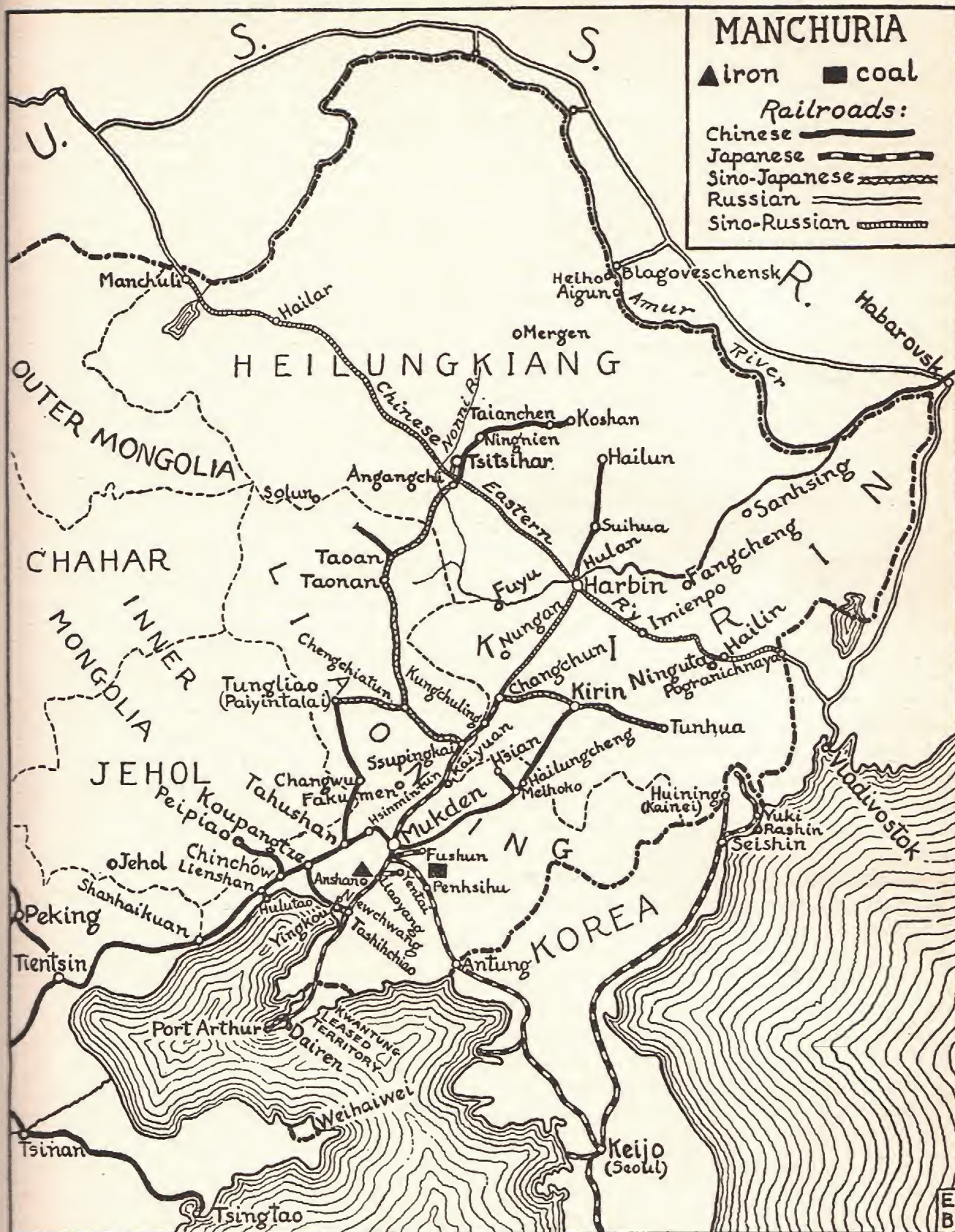
The Changchun-Kirin Railway

The construction of the Changchun-Kirin railway was carried out between 1910 and 1912 under the provisions of a loan agreement between the South Manchuria Railway Company and China, signed August

5. To bring up the full total of 3,700, about 140 miles of light railways must be added. For detailed figures, cf. *Second Report on Progress in Manchuria to 1930* (Dairen, The South Manchuria Railway, 1931), p. 74.

6. The first links in the Peking-Mukden Railway were begun as early as 1880 with Chinese capital; the railway was completed largely with British capital, some of which is still outstanding.

7. The length of each of these lines is as follows: Changchun-Kirin, 79 miles; Kirin-Tunhua, 130 miles; Ssupingkai-Taonan (with Chengchiatun-Tungliao branch), 264 miles; Taonan-Angangchi, 139 miles. (Cf. *Second Report on Progress in Manchuria to 1930*, cited, p. 74.)



THE MANCHURIAN RAILWAY SYSTEM

18, 1909, in accordance with preliminary agreements between the Chinese and Japanese governments previously signed April 15, 1907 and November 12, 1908.⁸ Under these agreements, the South Manchuria Railway Company advanced to China a loan of ¥2,150,000 at a discount of 93, covering half the cost of construction. The loan was made repayable in forty instalments at 5 per cent interest over a period of 25 years, payments to be met from traffic receipts deposited with the Yokohama Specie Bank. Interest payments were to begin on the date of issue of the loan, payments on principal on the sixth year thereafter. The management of the line was vested in a Chinese director-general, but the engineer-in-chief and the accountants were to be Japanese. In the period up to 1915, since the line was not profitable, the interest payments fell into arrears, and in the Sino-Japanese treaty of May 25, 1915 the Chinese government agreed "speedily to make a fundamental revision of the Kirin-Changchun Railway Loan Agreement."⁹

In accordance with this treaty provision, under the terms of a new loan agreement signed October 12, 1917, the South Manchuria Railway Company took over management of the Changchun-Kirin railway, except for a Chinese director with very nominal powers. The unredeemed portion of the original loan (¥1,988,750) was deducted from a newly advanced loan of ¥6,500,000, the difference (¥4,511,250) being turned over to the Chinese government without condition as to its use.¹⁰

The Kirin-Tunhua Railway

The contractual agreements for the construction of the Kirin-Tunhua railway, concluded by China and Japan, are related to the larger issue of the possible extension of this line to Huining (Kainei) on the Korean border. By a preliminary loan agreement with China, signed on June 18, 1918, three Japanese banks secured a contract for constructing the complete line from Kirin to

Huining.¹¹ This contract envisaged the signing of a formal loan agreement within six months. It also specified that ¥10,000,000 was to be advanced to the Peking government without condition as to its use upon conclusion of the agreement.¹² The amount so specified was paid to the Peking government on June 19, 1918, but the formal loan agreement was not consummated, and seven years passed before further action was taken.¹³

On October 24, 1925, however, a final contract was signed at Peking by the Chinese government and the South Manchuria Railway, providing for the financing of the construction of the section from Kirin to Tunhua only.¹⁴ By this contract, the original rights of the three Japanese banks relating to the entire line from Kirin to Huining were absorbed by the South Manchuria Railway, and a sum of ¥18,000,000 (later increased to ¥24,000,000) was advanced for the construction of the section from Kirin to Tunhua. Construction began on June 1, 1926, and work was completed on October 10, 1928. The Chinese government, however, was unable to make full payment upon completion of the line, as provided for in the contract. In this contingency, an alternative provision of the contract should have come into effect, whereby the unpaid portion of the amount advanced would have been converted into a formal loan with annual interest at 9 per cent. The Chinese authorities, however, have so far failed to implement this provision of the contract, and the Japanese advances have gone unpaid.^{15a} Meanwhile, the line has remained under the management of a Chinese director-general, who is obligated by contract to employ a Japanese chief accountant with Japanese assistants.

12. MacMurray, *Treaties and Agreements with and concerning China*, cited, Vol. II, p. 1430-1432.

13. Although the document in MacMurray (p. 1431) gives the advance in dollars, it was actually in yen. This advance constitutes one of the so-called "Nishihara loans" which are now in default. Aside from the transfer of ¥10,000,000 to the military clique in Peking to use as it saw fit, other extraordinary features of the agreement may be noted. As a contract, it was decidedly incomplete. No total loan figure to cover railway construction costs was mentioned, and no details as to the service of individual blocks of the bonds were included. (Cf. Young, *Japan's Special Position in Manchuria*, cited, p. 247-248.)

14. MacMurray, *Treaties and Agreements with and concerning China*, cited, Vol. II, p. 1432.

15. Young, *The International Relations of Manchuria*, cited, p. 213-214; also *China Year Book*, 1928, p. 265-266.

15a. Including the defaulted "Nishihara" loan, the sum outstanding on this line considerably exceeds ¥30,000,000. (Cf. *The China Year Book*, 1931, p. 356.)

8. J. V. A. MacMurray, *Treaties and Agreements with and concerning China* (New York, Oxford University Press, 1921), Vol. I, p. 627-631, 767-769, 785-787.

9. *Ibid.*, Vol. II, p. 1221.

10. *Ibid.*, Vol. II, p. 1390-1394. The new loan was discounted at 91.5; interest was at 5 per cent. It runs for thirty years, maturing in 1947, and may not be redeemed in full before that time. A sum of ¥5,525,000 remained outstanding on this loan at the end of 1930. (Cf. *The China Year Book*, 1931, p. 359.)

The Tunhua-Huining Extension

The proposed extension of the Changchun-Tunhua railway to Huining is of exceptional importance to Japan, both strategically and economically, since it would complete a new approach from the Japanese railway system in Korea to the cities of Kirin and Changchun. Upon completion of the Tunhua-Huining extension, the Japanese are planning to construct a great Korean port, at Seishin, Yuki, or Rashin, which would afford an outlet for the products of Kirin province and, with the further construction of a Changchun-Taonan line, of all west-central Manchuria. Under such circumstances, it is expected that the new Korean port would soon rival Dairen in importance, since it would be considerably closer to Japan and also to other world markets.^{15b}

The Japanese government bases its claim to an exclusive right to finance the Tunhua-Huining extension on three separate agreements contracted with various Chinese governments. The right to participate in the financing of a line from Kirin to Korea, should China require foreign capital, was originally granted to Japanese financiers under the terms of a Sino-Japanese convention of April 15, 1907.¹⁶ In a further Sino-Japanese agreement of September 4, 1909, China agreed to undertake the extension of the Kirin-Changchun line to Huining at some indefinite future time.¹⁷ Finally, there is the preliminary loan agreement of June 18, 1918, already mentioned, whereby three Japanese banks, upon advancing ¥10,000,000 to the Peking government, secured a contract which was never implemented by the formal loan agreement for which it provided. In the judgment of an able neutral expert, a strict reading of these three agreements in-

dicates that the right of Japan to finance the construction of the Kirin-Huining line might be invoked only if China desired to utilize foreign capital, and that except for the necessity of consulting Japan at the time of construction, the Chinese government is at liberty to build such a line with its own capital.¹⁸

Meanwhile, as already noted, the Kirin-Tunhua section of the line to Korea was completed under a separate contract in 1928. Following the construction of this section, the South Manchuria Railway authorities continued their efforts to secure the further extension of the line to the Korean border. In the spring of 1928 negotiations between the Mukden authorities and the South Manchuria Railway Company were reported to have resulted in the conclusion of a secret agreement under which all preliminary arrangements for beginning construction on the Tunhua-Huining line were to be completed by May 11, 1929. Upon the death of Marshal Chang Tso-lin in June 1928, however, his son, Marshal Chang Hsüeh-liang, repudiated the secret agreement on the ground that there had been a flaw in its drafting procedure.¹⁹

THE SSUPINGKAI-ANGANGCHI LINES*The Ssupingkai-Chengchiatun Railway*

By exchange of notes dated October 5, 1913, the Japanese government obtained from China the right to finance the construction of five railways in Manchuria, of which one was the Ssupingkai-Chengchiatun project.²⁰ This line was subsequently excluded from the scope of the five railways' agreement of 1913, and dealt with under a separate loan agreement concluded on December 27, 1915 by the Yokohama Specie Bank and the Chinese government. Under the terms of this agreement, the Yokohama Specie Bank floated a loan of ¥5,000,000 in 1915 at 5 per cent interest to cover the costs of construction, which was completed in 1918. The loan is secured on the property and revenues of the line, and is serviced over a term of forty years—until 1955—by the profits of the line or by other Chinese government revenues.²¹

15b. Dairen is 869 nautical miles from Kobe, while Rashin is only 425 nautical miles from Tsuruga, now the Japanese port of communication with Vladivostok.

16. MacMurray, *Treaties and Agreements with and concerning China*, cited, Vol. I, p. 627-631. The relevant provision reads as follows: "If the Kirin-Changchun Line should hereafter build branch lines or an extension, the construction of such lines shall rest of right with the Chinese Government, but, if there should be a lack of capital, application shall be made to the (South Manchuria Railway) Company for an arrangement. Should China, however, appropriate funds herself for the construction of any other railway lines than those mentioned it shall not concern the South Manchuria Railway Company."

17. *Ibid.*, p. 796-798. The relevant article states: "The Government of China shall undertake to extend the Kirin-Changchun Railway to the southern boundary of Yenchi, and to connect it at Holryong (Huening) with a Korean railway, and such extension shall be effected upon the same terms as the Kirin-Changchun Railway. The date of commencing the work of the proposed extension shall be determined by the Government of China, considering the actual requirements of the situation, and upon consultation with the Government of Japan."

18. Young, *The International Relations of Manchuria*, cited, p. 144.

19. *Ibid.*, p. 215, note 46.

20. MacMurray, *Treaties and Agreements with and concerning China*, cited, Vol. II, p. 1054-1055.

21. On December 31, 1930, the sum of ¥4,694,000 was still outstanding. (Cf. *The China Year Book*, 1931, p. 359.)

The management of the Ssupingkai-Chengchiatun line is vested in the Chinese government, which appoints a Chinese director-general. The director-general is obligated, however, in consultation with the Yokohama Specie Bank, to appoint a Japanese engineer, traffic manager, and chief accountant. Police control is exercised by Chinese railway guards under authority of the director-general, who, in agreement with the Yokohama Specie Bank, determines the number of the guards.

The Chengchiatun-Taonan Railway

The loan agreement of December 27, 1915 between the Chinese government and the Yokohama Specie Bank, already noted, contained a provision granting the bank the right to finance the construction of future extensions and branches of the Ssupingkai-Chengchiatun line, in case foreign capital was required. The rights of the Yokohama Specie Bank in this respect, as well as those in connection with the Ssupingkai-Chengchiatun line itself, were taken over by the South Manchuria Railway Company in 1919. Thereafter, during the period 1919-1923, the South Manchuria Railway authorities financed the construction of an extension to Taonan and of a branch to Tungliao, under arrangements similar to those governing the Ssupingkai-Chengchiatun line. The construction costs of the Chengchiatun-Taonan extension and of the Chengchiatun-Tungliao branch were covered by a short-term loan of ¥32,000,000 at 9¼ per cent interest, advanced by the South Manchuria Railway Company in 1919. This loan has since been renewed annually. On December 31, 1929 the amount outstanding, including principal and accrued interest, totalled ¥43,942,669.²²

The Taonan-Angangchi Railway

The completion of the construction operations on the Taonan-Angangchi railway line in December 1926 was of exceptional importance. Economically, it taps one of the richest agricultural regions of Manchuria. Strategically, from the Chinese point of view, its further extension to Tsitsihar (carried out under Chinese auspices alone) links the capital of Heilungkiang province to the other provincial capitals of Kirin and Mukden. From the Japanese point of view,

the construction of this line enables Japan to cut the Chinese Eastern Railway at Angangchi, thus throwing the initial battlefield, in the event of war with Russia, well to the west of Tsitsihar, and so protecting South Manchuria as Japan's base of operations.

The Sino-Japanese loan agreement for the construction of the Taonan-Angangchi line was signed at Mukden on September 3, 1924, between the South Manchuria Railway Company, represented by Mr. Y. Matsuoka, and the Mukden government, represented by the late Marshal Chang Tso-lin.²³ In accordance with this agreement, the line was constructed by Japanese contractors, acting for the South Manchuria Railway, who advanced the sum of ¥12,920,000 to cover construction costs. Later an additional advance of ¥2,500,000 was made. Failing repayment of the entire advance within six months after completion of the line, the amount was to be converted into a formal loan, secured on the line itself and its profits, bearing annual interest at 9 per cent. Redemption of the loan was provided for by means of annuity payments over a thirty-year period beginning with the eleventh year from completion of the line, though full payment of the loan might be made at an earlier date. During the period of the loan the line was to remain under the general management of a Chinese director-general, who was obliged, however, to engage a Japanese adviser and Japanese assistants. The sums advanced were not repaid within the six months' period, and no agreement was reached on converting them into a formal loan. The full amount of ¥15,420,000, plus accumulated interest, is still outstanding.^{23a}

SUMMARY

The problem of these Sino-Japanese railways, built with the aid of Japanese funds and technical skill but mainly operated by the Chinese authorities, became increasingly difficult as time passed and no effort was made to meet the accumulating defaults. By 1930 Japanese loans and advances on the Chengchiatun-Taonan, Taonan-Angangchi, and Kirin-Tunhua lines aggregating ¥71,420,000 were in default, on which the total amount outstanding, including accumulated

23. Young, *The International Relations of Manchuria*, cited, p. 210-211.

23a. *The China Year Book*, 1931, p. 356.

22. *The China Year Book*, 1931, p. 205.

interest, approximated ¥90,000,000. An additional sum of roughly ¥10,000,000 was still unpaid on the Changchun-Kirin and Ssuping-kai-Chengchiatun loans, bringing the total Chinese indebtedness to some ¥100,000,000. Further advances for the purchase of rolling stock would probably increase this

total by another ¥25,000,000. The situation reached the breaking point when, in 1930 and 1931, the Mukden authorities attempted to bring certain of these lines into competition with the South Manchuria Railway by incorporating them into a unified Chinese railway system.

THE CHINESE-FINANCED RAILWAYS

In addition to the 388 miles of the Mukden-Shanhaikuan line and the 612 miles of railways built with Japanese funds, the Chinese railway system in Manchuria includes over 800 miles financed with Chinese capital. The initial impetus to the construction of independent Chinese railways in Manchuria dates from December 1925. At this time the late Marshal Chang Tso-lin narrowly escaped overthrow by a revolting general, owing to the refusal of M. Ivanoff, then general manager of the Chinese Eastern Railway, to permit a body of Heilungkiang troops to come to Chang Tso-lin's assistance over that line. The incident led the Chinese authorities to initiate the construction of several new railways, which would be entirely under their own control, in order to enable them to move troops readily between the three provincial capitals of Mukden, Kirin and Tsitsihar. As the economic possibilities of the new lines also became evident, the scope of the Chinese railway plans steadily broadened. In its final form, the Chinese scheme of railway development sought to achieve two objects—the establishment of a system that would envelop the Japanese and Russian lines, and the construction of a port at Hulutao, on the Gulf of Peichihli, as an outlet for the Chinese railways.

THE CHINESE RAILWAY FAN

The Russian-owned Chinese Eastern Railway forms a roughly horizontal line, crossing Manchuria on the north, with a short vertical branch from Harbin to Changchun.²⁴ The southward extension of this vertical line, from Changchun to Dairen, constitutes the Japanese-owned South Manchuria Railway. Under these circumstances, the Chinese endeavored to superimpose a fan-shaped system, radiating from Hulutao, on the hori-

zontal and vertical systems owned by Russia and Japan.

The Chinese railway fan, as finally projected, included two trunk lines, extending from Hulutao to the far north on either side of the South Manchuria Railway. By 1930 these two lines were sufficiently completed to demonstrate their effectiveness in economic competition with the old-established Russian and Japanese systems. The western trunk line ran from Hulutao up through Tahushan and Tungliao to Taonan, Tsitsihar, and Koshan. The only gap in this line—from Tungliao to Taonan—could be obviated by the roundabout route through Chengchiatun. The eastern trunk line extended from Hulutao through Mukden to Kirin, with a gap from Kirin to Harbin, and then continued from Hulan to Hailun. A central cross-line from Meihoko to Ssupingkai, designed to link up with the Ssupingkai-Tungliao line, was half completed as far as Hsian.

Two additional lines, intended to tap inner Manchuria and Mongolia, were also under construction. In the northwest, a horizontal line was being constructed from Taoan (just north of Taonan) to Solun, with the intention of eventually extending it to Manchuli on the Siberian border. In the southwest, a line into Inner Mongolia from Chinchow to Jehol had been completed as far as Peipiao. The Chinese-financed lines, built since 1926 in fulfillment of this general scheme, aggregate 780 miles in length.²⁵

HULUTAO HARBOR

The commercial outlet of the Chinese railway system was to be located at Hulutao, where the construction of a first-class port was undertaken by the Mukden authorities. The natural advantages of Hulutao, in addi-

24. Although the Chinese participate in the management of the Chinese Eastern Railway, it is still Russian-owned, and the Chinese generally regard it as a foreign enterprise. As a result of the Russo-Chinese hostilities in 1929, moreover, the Soviet Union's share in the control of the line has been tightened.

25. They are distributed as follows: Tahushan-Tungliao, 157 miles; Tsitsihar-Angangchi, 16 miles; Tsitsihar-Koshan (and branches), 99 miles; Mukden-Hailungcheng (and branches), 202 miles; Kirin-Hailungcheng, 114 miles; Hulan-Hailun, 137 miles; Taonan-Solun (half completed), 55 miles. (Cf. *Report on Progress in Manchuria to 1930*, cited, p. 74.)

tion to the fact that it is ice-free throughout the year, made it not unlikely that the port might become a serious rival of Dairen and Vladivostok, which have long taken the bulk of the foreign trade of Manchuria. This development, of course, would follow automatically if the greater part of the Manchurian produce could be diverted from the Russian and Japanese to the Chinese lines.

The contract for the improvement of Hulutao harbor was let to the Netherlands Harbor Works Company on January 24, 1930 by Director Kao Chi-i of the Peking-Mukden Railway, acting under the authorization of the Nanking Ministry of Railways.²⁶ Work was to be completed in five and a half years, and was already in progress during 1930 and 1931. The plans called for a maximum berthing space sufficient for 97 vessels with an annual cargo capacity of 7,000,000 tons, of which space for 16 vessels was to be completed by 1935. The total cost was \$6,400,000 gold, payable in monthly installments of \$95,000 from the receipts of the Peking-Mukden Railway.²⁷

Pending completion of the work at Hulutao, a branch line of the Peking-Mukden Railway from Koupangtze to Newchwang (Yingkou) afforded a temporary outlet for the Chinese railway system through the port of Newchwang. This port, however, is ice-bound during the winter months, and is located several miles up the Liao River, which tends to silt up.

THE NEW CHINESE RAILWAYS

The most important sections of the two Chinese trunk lines were constructed in South Manchuria, to the east (Kirin-Mukden) and to the west (Tahushan-Tungliao) of the South Manchuria Railway. Between these two southern lines and the developing Chinese system in North Manchuria (Hulan-Hailun and Tsitsihar-Koshan) there were lengthy gaps, more or less adequately spanned via Chengchiatun and Taonan on the west, but not connected at all between

Kirin and Harbin on the east. The inner Manchurian line in the northwest (Taoan-Manchuli) and the inner Mongolian line in the southwest (Chinchow-Jehol) were still in the realm of projects, with only the first stages constructed.

The Southern Lines

The first new link in the Chinese system—the line from Tahushan to Tungliao—was financed from receipts of the Peking-Mukden Railway and was completed in 1927.²⁸ This railway, especially if taken in conjunction with its proposed extension to Taonan, is in a position to draw off a large part of the trade of western Manchuria through Hulutao. The whole Tahushan-Taonan line would undoubtedly prove an effective competitor with a completed Taonan-Changchun-Huining line to the Korean border, which is being furthered by Japan with the object of tapping the same area of west-central Manchuria. It would also seriously affect the position of the Ssupingkai-Angangchi line as a feeder to the South Manchuria Railway system. For these reasons, the Japanese authorities strenuously protested the construction of the Tahushan-Tungliao railway line on the ground that it paralleled the South Manchuria Railway.²⁹ The protests were not heeded, however, and the line operated as a branch of the Peking-Mukden Railway until September 1931.

The important Chinese railway connecting the provincial capitals of Mukden and Kirin was built in two sections. The section from Mukden to Hailungcheng was opened to through traffic in November 1928, and that from Kirin to Hailungcheng was completed in 1929. The construction of these two lines was financed through official funds furnished by the Mukden and Kirin authorities, in addition to private funds supplied by interested officials. These lines are not only of great strategic value but are also of considerable economic importance in opening up a fertile area for settlement. They have proved a very profitable venture.

The construction of the Kirin-Hailungcheng railway was protested by Japan, which claimed an exclusive right to finance the construction of this line, among several others,

26. Plans for the development of Hulutao date back to 1908. In October 1910 construction work was undertaken with British capital amounting to £800,000. At this time a railway line was laid, connecting Hulutao with the Peking-Mukden Railway at Lienshan, and a 400-foot section of the breakwater was built, for which it was estimated about £150,000 had been spent. In 1911, however, the revolution broke out, and the work had never been resumed. (*Ibid.*, p. 77.)

27. The British government protested this contract on behalf of British creditors of the Peking-Mukden Railway, to whom considerable sums were overdue, and also on the ground that it contravened the original Hulutao construction agreement of 1910 which China had not fulfilled.

28. Young, *The International Relations of Manchuria*, cited, p. 279-80; also *The China Year Book*, 1928, p. 268.

29. For the "parallel lines" issue, cf. p. 38-39.

by reason of the Sino-Japanese agreements of October 5, 1913 and of September 28, 1918, on the basis of which ¥20,000,000 had been advanced to the Peking Government.³⁰ The Mukden authorities, however, asserted that they were within their rights in building the line with Chinese capital, and ignored the Japanese protests.³¹

An attempt on the part of the Mukden-Hailungcheng line to establish a through-traffic arrangement with the Peking-Mukden Railway instead of with the South Manchuria Railway, as previously agreed, led the latter to obstruct the linking of the Mukden-Hailungcheng line with the Peking-Mukden Railway at Mukden by refusing to permit a crossing of the South Manchuria Railway's right-of-way.³² Despite Japanese opposition, however, the connection was finally established by the Chinese authorities, and through traffic from Kirin to Mukden was initiated on January 25, 1931.³³

A branch of the Mukden-Hailungcheng line from Meihoko to Hsian, also constructed with Chinese capital, was completed in January 1928. The importance of this branch lay in its projected extension to Ssupingkai. With this extension, a complete central cross-line will be established, linking up the two trunk lines of the Chinese system from Meihoko to Tungliao.

The Central Gaps

The eastern and western trunk lines from Kirin and Tungliao northward are both left with uncompleted gaps. On the east, a line was projected from Kirin to Harbin, to link up with the Hulan-Hailun railway, but was never completed. The failure to bridge this gap left Hulan-Hailun freight to find its outlet either through Vladivostok or Dairen. On the west, a projected line from Tungliao to Taonan was similarly uncompleted. In this case, however, there was an alternative route via Chengchiatun, and by this roundabout way through traffic from Tsitsihar to Hulutao was established by the Mukden rail-

way authorities in 1930 and 1931.³⁴ This use of the Chengchiatun-Tungliao and Chengchiatun-Taonan-Angangchi lines, in view of the defaults on the Japanese sums advanced for their construction, aroused keen resentment in Japan.

The Northern System

Since 1926 an important group of northern railways, with the possibility of extensions clear up to the Amur river, have been constructed with Chinese capital. The first Chinese line in this area was the short sixteen-mile connection between Angangchi and Tsitsihar. The building of this line necessitated a crossing of the Chinese Eastern Railway just east of Tsitsihar Station, and was strenuously opposed by the Soviet Union. The Chinese, however, declared that the U. S. S. R. had no legal right to obstruct the construction of any railway on Chinese soil to which there was no treaty right to the contrary, and cited the precedent of the Peking-Mukden Railway crossing of the South Manchuria Railway at Mukden. After protracted parleys, the Soviet Union permitted the construction of a viaduct across the Chinese Eastern, and the line was formally opened to traffic late in 1926.³⁵

The Hulan-Hailun line was constructed in two sections from 1926 to 1928. The Hulan-Suihua section was opened to traffic in January 1927, and the Suihua-Hailun section in December 1928. It was built with Chinese funds, totalling \$10,000,000 silver, supplied largely by the authorities of Heilungkiang province, particularly the late General Wu Chun-sheng. Technical assistance was received from Russian construction engineers, headed by Boris M. Ostroumoff, former general manager of the Chinese Eastern Railway. Its construction has encouraged considerable settlement by Chinese agriculturists, which has made it a successful economic venture.

The line from Tsitsihar to Koshan, which was completed late in 1930, was financed by local Chinese funds, official and private, at a total cost of \$4,500,000 silver. Projects were under consideration for the extension of this line, and also the Hulan-Hailun line, northward to Mergen, Aigun and Taheiho, which

30. This is another of the "Nishihara" loans advanced unconditionally to the Anfu clique in Peking.

31. Cf. Young, *The International Relations of Manchuria*, cited, p. 281; also MacMurray, *Treaties and Agreements with and concerning China*, cited, Vol. II, p. 1054-1055, 1448-1450.

32. Young, *The International Relations of Manchuria*, cited, p. 281-282.

33. *China Monthly Trade Report* (U. S. Department of Commerce), March 1, 1931, p. 13.

34. By agreement with the Nanking Ministry of Communications, through passenger and freight service was inaugurated from Tsitsihar to Pukow (opposite Nanking on the Yangtze River) in 1931.

35. Cf. C. Walter Young, "Economic Bases for New Railways in Manchuria," *Chinese Economic Journal*, Vol. I, No. 4, April 1927, p. 328.

would further open up this rich agricultural region.³³

Inner Manchurian Projects

The single remaining virgin field for railway development in Manchuria is to the west and southwest. A Chinese line from Taoan (north of Taonan) to Solun, with the prospect of an eventual extension to Manchuli on the Siberian border, has been completed for a length of 55 miles, or about half the distance to Solun. It was opened to traffic on February 1, 1931.³⁷

The Japanese have long been concerned with projects for railway lines into Jehol province, a section of Inner Mongolia in the southwest. Several Sino-Japanese agreements, notably the "Five Manchurian and Mongolian Railways" loan agreement of 1913 and the "Four Manchurian and Mongolian Railways" loan agreement of 1918, have given Japan the right to finance a line from Taonan to Jehol in case foreign capital is required.³⁸ In this area, also, a branch of the Peking-Mukden Railway runs from Chinchow to Peipiao. The projected extension of this line to Jehol would have opened up this rich inner Mongolian area, whose products would have been fed into the near-by port of Hulutao.

THE "PARALLEL LINES" ISSUE

The activity displayed by the Chinese during the past few years in developing a railway system of their own in Manchuria has intensified long-existing controversy with respect to certain alleged "secret protocols" of the Sino-Japanese Treaty of Peking, signed on December 22, 1905. Japan asserts that China was bound by one of these protocols not to construct railway lines parallel to the South Manchuria Railway. No official text of the alleged protocols, however, has ever been published in full by either the Chinese or Japanese government, nor were such protocols included in the instrument of ratification when the ratifications of the Treaty of Peking were exchanged on January 23, 1906. An alleged summary given by Dr. MacMurray, from which quotations have been ordinarily drawn, is prefaced by the

words "it has been stated" that these protocols were attached to the treaty.³⁹ An identical summary, in a similarly unsigned English version, which Japan communicated confidentially to the British and American governments in 1906, was issued by the Japanese Foreign Office on January 14, 1932.⁴⁰ A Japanese statement prefacing the summary declares that, since the protocols are to be kept secret in deference to the desire of the Chinese government, the summary includes "only such portions of those Protocols as possess the character of executory agreements."⁴¹ Article 3 of the summary, comprising the essential point at issue, reads as follows:⁴²

"The Chinese Government engage, for the purpose of protecting the interest of the South Manchuria Railway, not to construct, prior to the recovery by them of the said railway, any main line in the neighborhood of and parallel to that railway, or any branch line which might be prejudicial to the interest of the above-mentioned railway."

A statement of the Chinese position on this question was transmitted to the Japanese government in 1907, when the issue was raised in connection with the proposed Hsimintun-Fakumen railway. The formal note of the Board of Foreign Affairs at Peking addressed to Japan at this time reads in part as follows:⁴³

"Your Excellency refers to the minutes of the Sino-Japanese Conference, and declares that the Chinese government has disregarded her engagement and taken action prejudicial to the interest of the South Manchuria Railway. Probably your Excellency is not aware of the fact that at the time the plenipotentiaries of China and Japan discussed the matter, the plenipotentiaries of China maintained that the word 'parallel' was too comprehensive and that it was necessary to give distance in miles, stating definitely that within so many miles no parallel line could be constructed. The Japanese plenipotentiaries, however, thought that if the number of miles were fixed, it might create the impression in other countries that there was an intention to restrict Chinese railway enterprise. The Chinese plenipotentiaries then asked that the number of miles between the parallel lines be fixed in accordance with the practice of Europe and America. The

39. MacMurray, *Treaties and Agreements with and concerning China*, cited, Vol. I, p. 554.

40. *New York Times*, January 15, 1932.

41. Quoted from text supplied by the Consulate-General of Japan, New York City.

42. *Ibid.*; identical with MacMurray, *Treaties and Agreements with and concerning China*, cited, Vol. I, p. 554.

43. Shuhsi Hsu, *China and Her Political Entity* (New York, Oxford University Press, 1926), p. 295-296.

36. Like the other Chinese railways (and also the Japanese) these lines are built of the standard gauge, in distinction to the broad gauge of the Chinese Eastern Railway.

37. *China Monthly Trade Report*, cited, March 1, 1931, p. 13.

38. MacMurray, *Treaties and Agreements with and concerning China*, cited, Vol. II, p. 1054-1055, 1448-1450.

Japanese plenipotentiaries said the practice was not uniform and that no statement was necessary. And they added a declaration that Japan would do nothing to prevent China from any steps she might take in the future for the development of Manchuria. The declaration was made in all sincerity and with consideration for the interests of a friendly nation."⁴⁴

It is clear from this note that certain "minutes of the Sino-Japanese Conference" (i.e., of 1905) actually exist and concern, among other things, the issue of the construction of railway lines parallel to the

South Manchuria Railway. The failure to make the term "parallel" explicit by giving the actual distance in miles, however, has left the definition of the term open to conflicting interpretations whenever a specific issue arises. The Chinese government, in its actual practice, has neither denied the existence of some such commitments nor approved the versions circulated abroad. It has merely denied that these commitments have been properly interpreted by the Japanese government.⁴⁵

ECONOMIC ASPECTS OF SINO-JAPANESE RAILWAY COMPETITION

The most arresting feature of the recent economic history of Manchurian railroads is the dominant position occupied by the South Manchuria Railway system, considered purely as a profitable business concern,⁴⁷ in the years immediately preceding the world depression. The favorable economic situation of the South Manchuria Railway resulted from a combination of factors, including efficient management, lack of aggressive competition, and certain elements of monopoly advantage. The port of Dairen, without a serious rival in Manchuria, and by reason of its location monopolizing nearly 70 per cent of the trade of that region, afforded unique advantages to the South Manchuria Railway. Japan's success in preventing the introduction of Western capital into railway construction in Manchuria and, until 1926, in prohibiting the building of competitive Chinese lines also strengthened its monopolistic position. The effect of the new Chinese railway system on the South Manchuria Railway did not become immediately apparent—first, because the newly built lines came into operation during a boom period and, secondly, because they were not at first directed into aggressively competitive activities. During the years 1930 and 1931, however, the growing intensity of the general economic depression and the development of a competitive Chinese policy seriously jeopardized the

economic dominance of the South Manchuria Railway.

The depression has exerted an effect upon Manchurian trade and industry similar to that experienced in other regions of the world. Owing to the fact that Manchuria depends almost entirely on its raw products, it has suffered severely by the drop in agricultural commodity prices. Lessened demand in foreign and domestic markets for Manchurian beans, grains, cereals, skins, furs, and timber has so reduced the prices of these commodities as to leave little or no profit to the farmers. This situation has been aggravated by the wide fluctuations and unprecedentedly low levels in the value of silver, as well as by the depreciation of locally issued irredeemable notes.⁴⁸

Equally significant, however, especially from the Japanese point of view, was the development after 1929 of an aggressively competitive railway policy by the Chinese authorities at Mukden, designed to break down the monopoly advantages enjoyed by the South Manchuria Railway. The new policy was inaugurated by Marshal Chang Hsüeh-liang, following his rapprochement with Nanking. It was a natural outgrowth of the rising sense of nationalism throughout China, which was encouraged by the Nationalist successes, but was somewhat delayed in reaching Manchuria. Coinciding with the beginning of the depression, it stimulated an

44. The declaration here referred to is not contained in the summary of the protocols issued by Japan.

45. Young, *Japan's Special Position in Manchuria*, cited, p. 104. For detailed discussion of this issue, cf. *ibid.*, p. 94-112; also *idem*, *The International Relations of Manchuria*, cited, p. 258-265.

47. The South Manchuria Railway Company, it should be noted, is not solely a business concern. It also undertakes many public enterprises in such fields as education, sanitation, and medical and hospital service, on which it expends an average of ¥12,000,000 annually. If these projects were given up in favor of purely profitable enterprises, the earning power of the company would even further exceed that of the Chinese-owned railways in Manchuria.

48. The Japanese assert that the wholesale issue of irredeemable paper currency lies at the root of the economic distress of Manchuria. For years Chang Hsüeh-liang's Mukden government overworked its printing presses, flooding the country with paper currency known as "fengpiao." The Mukden authorities bought up the soya-bean and other crops of the Manchurian farmers with this paper money, and then resold the products to Europe and Japan for silver and gold. These operations caused a drastic decline in the value of the "fengpiao," making them practically worthless. It should also be noted, however, that Japanese currency has been widely introduced in the South Manchuria Railway areas.

intensified Sino-Japanese competition over the dwindling freight and passenger traffic on the Manchurian railways. Its effectiveness is indicated by the fact that, while the South Manchuria Railway profits radically decreased in 1930, the financial position of the Chinese railways actually improved.

SINO-JAPANESE COMPETITION, 1930-1931

The full effects of the general scheme of Chinese railway development, already considered,⁵¹ could not have become evident until the completion of the work at Hulutao. Meanwhile, however, during 1930 and 1931, the Chinese authorities at Mukden initiated a series of moves aimed at strengthening the financial position of the Chinese railways. As a first step, the passenger and freight rates on Chinese lines were radically reduced.⁵² A cut of 23 per cent was made effective in the general passenger rate, while Chinese immigrants into North Manchuria were charged only 30 per cent of the regular rate. The freight rates on commodities routed through Newchwang were cut 30 per cent, in addition to a reduction of 70 per cent in the transportation taxes.⁵³ These measures were doubly effective, since the Chinese railway rates were payable in depreciated silver, while the South Manchuria Railway's rates were charged in gold *yen*. In the second place, through service for passenger and freight traffic was inaugurated by the Chinese railway system, thus overcoming a disadvantage that had operated to favor the well-knit South Manchuria Railway. Finally, the transportation of mails and salt was transferred from the South Manchuria Railway to the Chinese lines.

The Chinese authorities argued that these measures formed part of a perfectly legitimate business policy, designed to better the economic status of a Chinese railway system in Chinese territory. In so far as the moves were directed at the South Manchuria Railway, they were aimed at breaking down the monopoly status enjoyed by the latter sys-

tem. Japan, however, claimed that discrimination in freight rates was practiced against Japanese shippers, in contravention of China's pledge in the Nine-Power Treaty not to permit such discrimination. Moreover, two links in the Chinese railway system—the Chengchiatun-Tungliao and the Taonan-An-gangchi lines—had been constructed with Japanese funds which had not been repaid.

In order to meet this competition, which was seriously cutting into its freight traffic, the South Manchuria Railway adopted a series of drastic measures during the early months of 1931.⁵⁴ In March the rates were changed from a gold to a silver basis, involving a reduction of over 40 per cent. The rate from Mukden to Yingkou on a carload of freight, for example, which amounted to \$154.80 silver on the former gold basis, became \$85.80 on the silver basis. In addition, a special transportation reduction of 30 per cent on certain kinds of freight, largely beans and other foodstuffs, originating north of Mukden and destined for the ports of Dairen or Antung, was made effective during a period from March 10 to September 30, 1931. Passenger rates for immigrants and laborers were reduced by half, beginning from January 15, 1931. A severe retrenchment program was carried out, involving the discharge of a considerable number of employees. Despite the drastic measures instituted by the South Manchuria Railway in 1931, its charges still remained slightly higher than those of the Chinese railways. This discrepancy continued to favor the Chinese railway system until September 18, 1931.

Results of Competition

The combined effect of the depression and the keen competition resulted in a serious loss of revenue to the South Manchuria Railway in 1930-1931. Its gross profits, which had amounted to ¥82,310,436.21 in the fiscal year April 1, 1929 to March 31, 1930, were reduced to ¥61,066,129.31 in 1930-1931.⁵⁵ The loss suffered by the railway was reflected in the lowered earnings of the South Manchuria Railway Company as a whole, including its subsidiary mining and industrial enterprises. Whereas the net profit of the

51. Cf. p. 35-38.

52. C. C. Fong, "Railway Systems in Manchuria," *The Chinese Nation*, Vol. II, No. 5, July 15, 1931, p. 150.

53. As a result, the amount of freight through Newchwang showed a large increase during 1930 and 1931 over previous years. (Cf. *China Monthly Trade Report*, cited, May 1, 1931, p. 20; also August 1, 1931, p. 23.) Dairen, on the other hand, which took 67.3 per cent (Tls. 508,527,913) of the trade of all Manchuria in 1929, obtained only 60.1 per cent (Tls. 422,885,466) in 1930.

54. Fong, "Railway Systems in Manchuria," cited, p. 151.

55. Figures in this paragraph are taken from the general balance sheets of the South Manchuria Railway Company for the fiscal years ending March 30, 1930 and March 31, 1931.

South Manchuria Railway revenues have steadily increased since October 1, 1931, until on December 31 it was expected that the

total receipts for the first nine months of the fiscal year would equal or possibly exceed those for the corresponding period in 1930.⁶³

CONCLUSION

Should the present Japanese occupation of Manchuria be consolidated and become permanent, the facts here adduced will be of historical interest only. If, however, as a result of Chinese pressure or of outside intervention, such as that of the League Commission of Inquiry, the Japanese position in Manchuria comes under review and a new settlement is reached, it must be achieved upon the basis of the *status quo* prior to September 1931. In such a readjustment, one of the major problems will be that of reconciling the legitimate rights and interests of China and Japan in the future railway development of Manchuria.

The case of China in this connection rests upon a refusal to recognize the legitimacy of the monopolistic position long held by the South Manchuria Railway, developed on the basis of alleged treaty privileges which China does not recognize as valid. The Chinese assert that they have an inherent right to use every means at their disposal to develop a railway system of their own in Manchuria. This right, they claim, has been guaranteed to China by a number of international agreements, notably the Treaty of Portsmouth, in which Japan and Russia engaged "not to obstruct any general measures common to all countries, which China may take for the development of the commerce and industry of Manchuria." On this basis, China merely affirms the right of free competition on territory over which Chinese sovereignty legally prevails.

To these contentions, Japan replies that the methods adopted by the Chinese authorities to achieve their ends represented unfair discrimination, specifically directed against

legitimate Japanese rights and interests secured by treaty. On this treaty basis, Japanese investments in the South Manchuria Railway and its allied enterprises have been built up, materially contributing to the progress and prosperity of Manchuria. The size of Japan's stake in Manchuria, as well as its vital importance to Japan's economic welfare, it is claimed, cannot permit of any threat to the South Manchuria Railway.

It is obvious that the basic character of this conflict does not admit of an easy settlement. What is at stake is the share to be derived by China and Japan from the future economic development of Manchuria, which, in the last analysis, depends upon control of the arteries of communication. Continued resort to direct action on the part of Japan, by encouraging the militarization of China and compelling a pro-Russian orientation, will tend to unsettle the Far East indefinitely. The most practicable alternative is some form of compromise that will further the cooperative development of both the Chinese and Japanese railway systems in Manchuria. The future economic development of that area will undoubtedly furnish profitable scope for these and additional railway lines. This development, however, might well be placed in the hands of a permanent Sino-Japanese railway board, possibly including neutral members responsible to the League. Such a board would require broad powers. It would be responsible for the impartial policing of the railway areas, for decisions as to new railway and port development, and for securing the funds needed for the additional construction.⁶⁴ That some such project has already been considered, both in Japan and China, indicates that it is not beyond the bounds of possibility when moderate leaders are in control in both countries.

63. *Ibid.*, p. 25.

64. In formulating proposals of this nature, it is always necessary to take into consideration, from the Chinese point of view, that since the South Manchuria Railway is by nature a concession, its eventual restoration to China must always be kept in mind.